

China Steel Corporation

**Financial Statements for the
Three Months Ended March 31, 2011 and 2010 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of March 31, 2011 and 2010, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except for the matters described in the third paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Review of Financial Statements" issued by the Auditing Committee of the Accounting Research and Development Foundation ("ARDF") of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of officers responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 12 to the accompanying financial statements, investments in certain equity-method investees were NT\$38,939,762 thousand and NT\$34,662,572 thousand as of March 31, 2011 and 2010, respectively. The related net investment income were NT\$1,104,509 thousand and NT\$1,505,698 thousand for the three months ended March 31, 2011 and 2010, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting period as that of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had the financial statements of the investees referred to in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the financial statements of the Corporation for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of China Steel Corporation and its subsidiaries as of and for the three months ended March 31, 2011 and 2010 on which we issued a qualified review report.

April 18, 2011

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CORPORATION

BALANCE SHEETS

MARCH 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

(Reviewed, Not Audited)

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 2,769,787	1	\$ 16,049,522	5	Short-term loans and overdraft	\$ 5,494,926	1	\$ 1,498,482	-
Financial assets at fair value through profit or loss - current	-	-	10,017,166	3	Commercial paper payable	3,899,253	1	-	-
Available-for-sale financial assets - current	2,056,406	1	1,791,346	1	Hedging derivative liabilities - current	1,857	-	23,439	-
Hedging derivative assets - current	-	-	16,248	-	Accounts payable	4,983,190	1	1,619,073	1
Notes receivable	760,827	-	484,764	-	Accounts payable - related parties	1,809,400	1	3,870,451	1
Notes receivable - related parties	571,878	-	574,776	-	Income tax payable	5,482,363	1	574,016	-
Accounts receivable	2,176,543	1	1,801,793	1	Accrued expenses	8,247,256	2	8,332,785	2
Accounts receivable - related parties	698,333	-	777,970	-	Other payables	5,347,472	1	3,743,707	1
Other receivables	983,572	-	5,072,550	1	Bonds payable - current portion	13,698,709	4	-	-
Other financial assets - current	1,750,124	-	4,526,403	1	Long-term debt - current portion	-	-	4,271,395	1
Inventories	52,731,377	13	30,662,293	9	Others	3,212,394	1	3,308,218	1
Deferred income tax assets - current	615,705	-	1,026,564	-					
Restricted assets - current	4,651,000	1	4,650,002	1	Total current liabilities	52,176,820	13	27,241,566	7
Others	1,774,848	1	1,428,017	-					
Total current assets	71,540,400	18	78,879,414	22	LONG-TERM LIABILITIES				
FUNDS AND INVESTMENTS					Hedging derivative liabilities - noncurrent	-	-	661	-
Available-for-sale financial assets - noncurrent	3,350,829	1	3,023,443	1	Bonds payable	29,581,631	8	43,271,244	12
Financial assets carried at cost - noncurrent	6,797,228	2	5,515,210	1	Long-term debt	23,092,266	6	18,749,276	5
Bond investments with no active market - noncurrent	103,000	-	103,000	-	Long-term notes payable	4,497,426	1	5,249,871	2
Investments accounted for by the equity method	125,950,340	32	99,295,958	28	Total long-term liabilities	57,171,323	15	67,271,052	19
Other financial assets - noncurrent	363,326	-	281,325	-					
Total funds and investments	136,564,723	35	108,218,936	30	RESERVE FOR LAND VALUE INCREMENT TAX	8,673,466	2	8,673,466	2
PROPERTY, PLANT AND EQUIPMENT									
Land	10,877,244	3	10,692,043	3	OTHER LIABILITIES				
Land improvements	4,223,646	1	4,223,646	1	Deferred income tax liabilities - noncurrent	533,055	-	739,481	-
Buildings	44,785,436	11	42,286,022	12	Deferred credits - gain from affiliates	1,992,844	1	1,968,611	1
Machinery and equipment	277,238,009	71	261,655,910	73	Total other liabilities	2,525,899	1	2,708,092	1
Transportation equipment	1,746,746	-	1,774,194	1	Total liabilities	120,547,508	31	105,894,176	29
Other equipment	5,053,450	1	4,749,798	1					
Spare parts	6,905,382	2	6,977,679	2	CAPITAL STOCK - AUTHORIZED 17,000,000 THOUSAND SHARES AND 14,000,000 THOUSAND SHARES AT NT\$10 PAR VALUE AS OF MARCH 31, 2011 AND 2010, RESPECTIVELY				
Total cost	350,829,913	89	332,359,292	93	Common shares - issued 13,527,901 thousand shares and 13,094,519 thousand shares as of March 31, 2011 and 2010, respectively	135,279,009	34	130,945,189	37
Revaluation increment	42,986,657	11	43,665,919	12	Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Cost and revaluation increment	393,816,570	100	376,025,211	105	Total capital stock	135,661,689	34	131,327,869	37
Less: Accumulated depreciation	251,456,955	64	240,745,493	67					
	142,359,615	36	135,279,718	38	CAPITAL SURPLUS	20,112,661	5	19,605,674	5
Construction in progress and prepayments for equipment	39,263,978	10	33,382,147	9					
Total property, plant and equipment	181,623,593	46	168,661,865	47	RETAINED EARNINGS				
INTANGIBLE ASSETS	215,842	-	266,436	-	Legal reserve	49,070,526	12	47,117,709	13
OTHER ASSETS					Special reserve	7,615,701	2	7,615,701	2
Assets leased to others, net	3,212,381	1	3,220,034	1	Unappropriated earnings	37,651,735	10	19,617,957	6
Refundable deposits	131,243	-	163,411	-	Net income for the three months ended March 31	6,676,102	2	11,065,729	3
Restricted assets - noncurrent	12,095	-	14,301	-	Total retained earnings	101,014,064	26	85,417,096	24
Total other assets	3,355,719	1	3,397,746	1	OTHER EQUITY				
TOTAL	\$ 393,300,277	100	\$ 359,424,397	100	Unrealized revaluation increment	21,866,410	5	21,913,046	6
					Unrealized gain on financial instruments	2,442,201	1	3,413,290	1
					Cumulative translation adjustments	(230,196)	-	294,985	-
					Net loss not recognized as pension cost	(79,210)	-	(42,243)	-
					Treasury stock - 280,140 thousand shares and 285,674 thousand shares as of March 31, 2011 and 2010, respectively	(8,034,850)	(2)	(8,399,496)	(2)
					Total other equity	15,964,355	4	17,179,582	5
					Total stockholders' equity	272,752,769	69	253,530,221	71
					TOTAL	\$ 393,300,277	100	\$ 359,424,397	100

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated April 18, 2011)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 56,506,086	100	\$ 53,240,602	100
OPERATING COSTS	<u>49,782,498</u>	<u>88</u>	<u>40,971,685</u>	<u>77</u>
GROSS PROFIT	6,723,588	12	12,268,917	23
REALIZED GAIN FROM AFFILIATES, NET	<u>71,080</u>	<u>-</u>	<u>31,403</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>6,794,668</u>	<u>12</u>	<u>12,300,320</u>	<u>23</u>
OPERATING EXPENSES				
Research and development	313,588	1	318,293	1
Selling	601,589	1	656,650	1
General and administrative	<u>713,941</u>	<u>1</u>	<u>644,573</u>	<u>1</u>
Total operating expenses	<u>1,629,118</u>	<u>3</u>	<u>1,619,516</u>	<u>3</u>
OPERATING INCOME	<u>5,165,550</u>	<u>9</u>	<u>10,680,804</u>	<u>20</u>
NONOPERATING INCOME AND GAINS				
Interest income	17,591	-	26,593	-
Valuation gain on financial assets	-	-	4,322	-
Investment income recognized under equity method, net	2,042,667	4	2,453,927	5
Exchange gain	169,536	-	15,910	-
Others	<u>190,610</u>	<u>-</u>	<u>176,418</u>	<u>-</u>
Total nonoperating income and gains	<u>2,420,404</u>	<u>4</u>	<u>2,677,170</u>	<u>5</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	170,232	-	176,643	-
Others	<u>99,713</u>	<u>-</u>	<u>56,489</u>	<u>-</u>
Total nonoperating expenses and losses	<u>269,945</u>	<u>-</u>	<u>233,132</u>	<u>-</u>
INCOME BEFORE INCOME TAX	7,316,009	13	13,124,842	25
INCOME TAX	<u>639,907</u>	<u>1</u>	<u>2,059,113</u>	<u>4</u>
NET INCOME	<u>\$ 6,676,102</u>	<u>12</u>	<u>\$ 11,065,729</u>	<u>21</u>

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic	\$ 0.55	\$ 0.50	\$ 0.99	\$ 0.84
Diluted	\$ 0.55	\$ 0.50	\$ 0.98	\$ 0.83

Pro forma information (after income tax) assuming the Corporation's shares held by its subsidiaries were accounted for as investments instead of treasury stock is as follows:

	2011	2010
Net income	\$ 6,716,133	\$ 11,065,729
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 13,527,901 thousand shares	\$0.50	\$0.82
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 13,666,270 thousand and 13,691,453 thousand shares for the three months ended March 31, 2011 and 2010, respectively	\$0.49	\$0.81

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated April 18, 2011)

(Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,676,102	\$ 11,065,729
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	4,106,171	3,707,486
Amortization	10,603	35,019
Deferred income tax	(8,605)	1,464,810
Provision for loss on inventories	92,824	74,217
Investment income under equity method, net	(2,042,667)	(2,453,927)
Realized gain from affiliates, net	(71,080)	(31,403)
Loss on disposal of property, plant and equipment	2,484	5,867
Valuation gain on financial assets	-	(4,322)
Loss on service commitments	-	772,540
Others	(6,468)	6,432
Net changes in operating assets and liabilities		
Notes receivable	(54,752)	(56,695)
Notes receivable - related parties	(34,670)	(352,345)
Accounts receivable	(279,135)	100,405
Accounts receivable - related parties	(108,802)	151,932
Other receivables	143,531	522,287
Inventories	(5,866,149)	3,941,236
Other current assets	(277,318)	(517,627)
Notes payable - related parties	(23,163)	-
Accounts payable	352,390	(388,611)
Accounts payable - related parties	499,736	766,006
Income tax payable	647,573	574,016
Accrued expenses	(2,485,374)	(161,353)
Other payables	1,931,323	272,092
Other current liabilities	(588,198)	143,974
Net cash provided by operating activities	<u>2,616,356</u>	<u>19,637,765</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	-	(6,050,021)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	-	100,021
Acquisition of investments accounted for by equity method	(888,941)	-
Acquisition of property, plant and equipment	(5,192,804)	(7,409,368)
Proceeds from disposal of property, plant and equipment	1,267	-
Increase in other financial assets	(290,304)	(30,836)
Increase in refundable deposits	(14,725)	(25,087)
Decrease (increase) in restricted assets	18,372	(500,000)
Increase in intangible assets	-	(90)
		(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
Net cash used in investing activities	\$ (6,367,135)	\$ (13,915,381)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	4,153,162	(4,712,268)
Increase (decrease) in commercial paper payable	199,614	(7,999,777)
Proceeds from long-term debt	-	17,872,951
Cash dividends	(2,826)	(22,249)
Net cash provided by financing activities	4,349,950	5,138,657
NET INCREASE IN CASH AND CASH EQUIVALENTS	599,171	10,861,041
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,170,616	5,188,481
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,769,787	\$ 16,049,522
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 104,147	\$ 57,011
Capitalized interest	(49,544)	(23,987)
Interest paid (excluding capitalized interest)	\$ 54,603	\$ 33,024
Income tax paid	\$ 939	\$ 20,287
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash paid for acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ 4,772,548	\$ 7,364,335
Decrease in payable for equipment purchased	420,256	45,033
	\$ 5,192,804	\$ 7,409,368
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 13,698,709	\$ 4,271,395

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated April 18, 2011)

(Concluded)